

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Market Dominant Price Adjustment

Docket No. R2022-1

COMMENTS OF PITNEY BOWES INC.
(May 6, 2022)

Pursuant to Order No. 6146, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) April 6, 2022 Notice of Market-Dominant Price Change (Notice).¹ These comments address: (1) the need to strengthen the Commission's workshare rules to promote pricing and operational efficiency consistent with the stated goals of the rules, and (2) the importance of maintaining a substantial pricing differential for Metered Letters to promote a secure, efficient payment channel for Single-Piece First Class Mail.

I. The Workshare Rules Should be Strengthened to Promote Pricing and Operational Efficiency

As part of the statutory review of the modern rate system, the Commission concluded that the Postal Service had the pricing authority to set more efficient workshare discounts but it had not exercised that authority.² Accordingly, the Commission changed its workshare rules to require the Postal Service phase out workshare discounts set substantially above or below avoided costs by moving all workshare discounts closer to full efficient component pricing (ECP) rates. In developing the new workshare rules, the Commission sought to "encourage incremental improvement in pricing efficiency" while preserving flexibility to allow the Postal Service to adapt to the new rules.³ While

¹ See Docket No. R2022-1, United States Postal Service Notice of Market Dominant Price Change (Apr. 6, 2022) (Notice).

² See Docket RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review (Dec. 1, 2017), at 139, 216-19 (Order No. 4257).

³ Docket No. RM2017-3, Revised Notice of Proposed Rulemaking (Dec. 5, 2019) at 193 (Order No. 5337).

improvements have been made, the new rules are too permissive; stronger regulation is necessary to ensure the Postal Service is maximizing incentives to promote efficiency.

A. Prospective Enhancements

The workshare rules sought to balance the Commission’s stated commitment to “rigorously enforce adherence to ECP for workshare discounts that are below their avoided costs[,]” with the Postal Service’s generalized concerns regarding pricing flexibility.⁴ That compromise is reflected, in part, in section 3030.284 of the worksharing rules. Section 3030.284, allows a discount to be set below costs avoided if it is a new workshare discount, if the existing discount is increased by 20 percent, or if the proposed discount is set above an 85 percent passthrough floor.⁵

Numerous commenters expressed concerns when this rule was being developed that it was too lenient because it would allow the Postal Service to perpetually set discounts at levels that are minimally compliant (85 percent), thereby undermining the Commission’s stated goal of moving all workshare discounts closer to 100 percent passthroughs.⁶ With the benefit of several years of experience, it is now clear that those concerns were prescient, the rules are too permissive and need to be strengthened to fully realize the stated goals of enhanced pricing and operational efficiency.

The 5-Digit rate is the most important rate category for commercial mailers and is among the most profitable and efficient mail for the Postal Service to process. As the Postal Service observes in its Notice, “5-Digit Automation Letters[] comprise a significant portion of overall First-Class Mail volume and revenue[.]”⁷ For these reasons, it is particularly important that the Postal Service set this rate to encourage more efficient mail preparation, reduce its own costs, and improve its financial stability. Increasing the 5-Digit Automation Letters workshare discount to more fully reflect the value

⁴ Order No. 5337 at 195.

⁵ 39 C.F.R. § 3030.284.

⁶ See Docket No. RM2017-3, Comments of Pitney Bowes Inc. (Feb. 3, 2020) at 5; *see also* Docket No. RM2017-3, Comments of The National Postal Policy Council, The Major Mailers Association, The National Association of Presort Mailers, and The Association for Mail Electronic Enhancement (Feb. 3, 2020) at 17.

⁷ Notice at 7.

of the work performed also has the beneficial effect of lowering the effective price paid by commercial mailers that prepare mail to 5-Digit levels.

Despite its importance, the proposed price adjustment for 5-Digit Automation Letters does not promote economic efficiency. Based on a cost avoidance of 4.2 cents the prevailing discount would have resulted in a passthrough of 83.3 percent, thus the Postal Service increased the discount by one tenth of a cent, from 3.5 cents to 3.6 cents. While that adjustment is an improvement, it represents the most inefficient level permitted under the existing rules; 3.6 cents satisfies the minimum passthrough of 85.7 percent. Following a pattern established in the last rate adjustment and contrary to the stated intent of the Commission's rules, the discount for the most important First-Class Mail Automation Letters product maximizes permissible *inefficiency* under the current rules.

The Commission has previously stated that it would assess over time whether the rules were operating as intended to determine whether changes are necessary.⁸ Given the experience of rate adjustments under the new rules, it is clear the current rules must be strengthened to arrest this trend and to require the Postal Service to incrementally improve these discounts to full ECP rates to maximize pricing and operational efficiency as required by statute.⁹ At its first opportunity the Commission should change the rules to substantially narrow the compliance bands (e.g., 95 percent) or require all workshare discounts passthrough 100 percent of costs avoided, subject to the existing waiver provisions for exceptional circumstances.

B. Immediate Clarification of “Do No Harm” Rule

The Commission should immediately clarify that adjusting rates in a manner that sets a workshare discount farther from full ECP rates violates the “do no harm” principle inherent in section 3030.282. The new workshare rules were designed to require that rates progressively move workshare

⁸ Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes (July 19, 2021), at 61 (Order No. 5937).

⁹ See 39 U.S.C. §§ 3622(b)(1), 3622(c)(5), (7), and (12).

discounts closer to full ECP rates, consistent with Objective 1, not to allow a type of regulatory “chutes and ladders” game in which near-optimal workshare discounts with passthroughs that barely tip over 100 percent are permitted to fall all the way down to discounts that passthrough only 85 percent of the avoided costs, ostensibly to achieve minimum compliance under section 3030.284(e).

The Public Representative raised this issue in the last price adjustment case.¹⁰ In Docket No. R2021-2, the Postal Service reduced the discount for First-Class Mail Automation Mixed AADC Letters by 26 percent, resulting in a change from the starting passthrough of 117.3 percent to a passthrough of 86.5 percent.¹¹ The Public Representative properly stated that “permit[ting] discounts to bounce from above 100 percent passthrough[s] to below 100 percent passthrough[s]” is contrary to the pricing efficiency goals of the statute and the Commission’s workshare rules, specifically section 3030.282.¹²

The Postal Service continues this unfortunate practice in this case. The change to the Periodicals Outside County Mail Machinable Nonautomation 3-Digit / SCF Flats Presort rate results in a change from a starting passthrough of 101.9 percent to a current passthrough of 86.5 percent: a change that appears intended solely to achieve minimal compliance with section 3030.284(e).¹³ The proposed adjustment violates section 3030.282 because it decreases pricing efficiency. The proposed adjustment would change a rate that was close to full ECP rates to a rate that substantially deviates from full ECP rates. The Commission should not accommodate an interpretation of its rules that so obviously subverts the animating “do no harm” principal.

This is an obvious problem that does not require multiple price adjustments or further experience to assess; changes in rates that result in less efficient workshare discounts are facially inconsistent with the language, intent, and purpose of the rules. The Commission should take this

¹⁰ See Docket No. R2021-2, Public Representative Comments (June 28, 2021), at 16-18.

¹¹ *Id.* at 18.

¹² *Id.*

¹³ See Notice at 21, Table 14.

opportunity to clarify that the operative provision in these circumstances is section 3030.282, not section 3030.284.

Section 3030.282 gives effect to the Commission’s “do no harm” principle by requiring increased pricing efficiency in all price adjustments. Read in concert, sections 3030.282(a)-(c) all should be read to require that rate adjustments move workshare discounts progressively closer to full ECP rates. Just as the Postal Service cannot change a discount that is set at full ECP rates to a less efficient rate under section 3030.282(a), the Commission should clarify that section 3030.282(b) prohibits changing workshare discounts exceeding costs avoided to less efficient levels, either by increasing the size of the discount or by reducing the size of the discount to such an extent that the resulting discount is even farther from full ECP rates. The most logical reading of section 3030.282(b) is that in furtherance of the goal of “increased pricing efficiency” discounts that exceed costs avoided cannot be increased and should be reduced to reflect full ECP rates, subject to the limitations of section 3030.283.

II. The Postal Service Should Use the Single-Piece Rate Design to Incentivize Secure, Efficient Payment Channels and Encourage Small Businesses to Use Postal Products

The Postal Service proposes to increase the First-Class Mail Single-Piece Stamped Letters price by 2 cents and the Single-Piece Metered Letters price by 4 cents, resulting in a reduced price differential between Stamped and Metered Letters from five to three cents. The Postal Service should revisit this issue in its next rate adjustment. A more meaningful price differential between Stamped Letters and Metered Letters encourages small and medium-sized mailers to use the Postal Service products to grow their business.

As the Postal Service has observed in previous filings, Metered Letters are also a more secure and efficient payment channel for the Postal Service.¹⁴ The Metered Letters rate also serves as the benchmark for First-Class Mail Presort Letters. A larger pricing differential between Stamped and

¹⁴ See e.g., Docket No. R2020-1, Notice of Market Dominant Price Adjustment (Oct. 10, 2018) at 7.

Metered Letters lowers both the effective price of Metered Letters for small and medium-sized mailers and the Presort Letters prices for all commercial mailers, which help mitigate the impact of the larger overall pricing increases. Accordingly, Pitney Bowes encourages the Postal Service to restore the five cent price differential between Stamped and Metered Letters in the next price adjustment.

III. Conclusion

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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